

Energy Co-operatives in Rural Australia

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Introduction

The key questions for this seminar are what and how can energy consumers have an effective influence in the new energy market.

A free market response would have us believe that left alone the market will best serve consumers. The extremist version of this is the explicit claim that there is a perfect market between buyers and sellers. This perspective ignores the realities of affordability and accessibility – and how this impacts on bargaining power.

A State response would have us believe that the State must intervene in the operations of the market through appropriate legislation and regulation on behalf of consumers. This perspective ignores the paternalistic consequence of depending on the vagaries of the State.

The co-operative response is somewhat different. What underpins co-operative philosophy and principles is democracy and volunteerism. The co-operative choice is an alternative to public or private provision and is often in response to government and market failure. Because it is democratic and voluntary the co-operative movement recognises the legitimacy of private and public sector provision.

History

It is important to understand the history of the energy industry in Victoria for this history, and its perception, structures our expectations – about the energy industry, the Government's role and consumers.

Changes to Victoria's electricity industry need to be understood in the context of national competition policy. In April 1995 Australian Governments – Commonwealth, State and Territory – all signed a Competition Principles Agreement. Under this Agreement, the Governments are required to reform

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public monopolies and remove anti-competitive provisions i.e. facilitate privatisation.

Victoria's electricity industry was a vertically integrated State monopoly – the State Electricity Commission of Victoria with some local governments involved in distribution and retailing. Under a Labor Government in the period 1982-92 the SECV was corporatised – imitating the governance of investor-owned companies. Privatisation of the electric industry began seriously in Victoria in 1992 when the Labor Government sold 51% of the Loy Yang B Power Station to Mission Energy (now Edison Mission Energy).

In October 1992 a Liberal Government was elected and undertook the complete privatisation of the SECV. Between 1992 and 1999 the Liberal Government completed the privatisation of Victoria's electricity industry with competing generators and retailers and introducing a phasing-in process for consumer choice beginning in December 1994 with customers with a load of above 5MW.

The last tranche of contestability in Victoria was 160MWh/Yr from July 1998. Individual consumers who did not meet the load usage level have not been allowed to aggregate their individual loads to become eligible.

All remaining residential and small business consumers were scheduled to become contestable from January 2001 in the States of Victoria, Queensland, New South Wales and the Australian Capital Territory with South Australia joining from 1 January 2003. By 2003, then, 7 million consumers would be contestable. Two States would be outside the national market – Tasmania and WA. The next tranche will be consumers between 40MWh/Yr and 160MWh/Yr from 1 January 2001.

With its election in 1999, the Labor Government was reluctantly committed to status quo privatisation and contestability but with tougher legislation and regulation of investor owned utilities. In its pre-election policy the Government also proposed the involvement of local government in the restructured industry and foreshadowed the possibility of local governments becoming retailers. This was a risky proposition that the Government has subsequently ignored. The policy did not refer to co-operatives and aggregation. But, then, these were also not addressed by the Liberal Government.

The Labor Government has announced that full contestability will not be achievable by 1 January 2001 because the industry is not ready and has proposed a further phasing-in process beginning with consumers with a load of between 40 MWh/Yr and 160 MWh/Yr. Co-operative Energy Ltd has opposed this – arguing that if phasing-in is necessary, then, it should be open to groups of consumers based on postcode and/ or allow for individual consumers to aggregate up to 40MWh/Yr. Our argument has been that it is equally important to facilitate competitive choice for small consumers – instead of continuing the

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policy and practice of ‘big doges eating first.’ The Government has ignored our argument. Nor has our position been supported by others who are more intent on protecting – rather than empowering consumers. Unfortunately, the Victorian Government is relying on four sources of advice not committed to the empowerment of consumers:

- Consultants who were involved in the development and implementation of privatisation and whose primary interest has been the technology of implementation rather than social and economic choices and impact.
- Capital-driven energy utilities who are ambivalent about small consumer choice and because they are investor-owned have an obligation to maximise shareholder returns.
- Community agencies who believe they have a mission to protect small consumers from choice because they oppose privatisation and distrust the capacity of small consumers to represent their own interests.
- The Office of the Regulator-General, Victoria, which is doing its best but is under-resourced and, therefore, unable to function properly in the public interest because of a limited and limiting legislative mandate and resources.

The community agencies are particularly disappointing. Our experience is that there is more understanding of co-operatives and aggregation by ORG and the utilities.

The electricity industry in Victoria is regulated by the government appointed Office of the Regulator-General (ORG). ORG was established by the Liberal Government in 1993. Regulation has been light-handed and the Labor Government has affirmed its commitment to the continuation of light-handed regulation but with changed legislation and regulation. The effectiveness and efficiency of ORG as a regulator is questionable, however, given a report it commissioned by Pareto Associates Ltd that concluded that for the distribution pricing review ORG did not have sufficient resources to assess information provided by utilities and make these transparent for consumers. Pareto Associates Ltd criticised ORG’s distribution pricing review because it did not provide consumers with simple, comprehensive and meaningful information and that there was insufficient transparency by the distribution utilities so that ORG could do its job.

In a number of submissions to the distribution pricing review, Co-operative Energy Ltd consistently criticised ORG’s distribution pricing review for being too technical and theoretical, not acknowledging our criticisms and not providing a robust and transparent consultation process. But, the, ORG has not publicly responded to the criticisms of Pareto Associates Ltd – confirming that a public relations exercise is a public relations exercise.

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The Labor Government will replace ORG by an Essential Services Commission. Whether the name change is of substantive significance will depend on the emerging legislative and regulative framework and the resourcing of the Commission.

ORG has established a Customer Consultative Committee whose members are the Energy Action Group, the Victorian Council of Social Service, the Consumer Law Centre, the Victorian Farmer's Federation, Australian Industry Group; Consumers' Federation of Australia; Property Council of Australia, Financial & Consumer Rights Council, Environment Victoria, Victorian Employers' Chamber of Commerce and Industry, and the Australian Cogeneration Association. The Committee has met since February 1995.

There is no co-operative representative on the Customer Consultative Committee. This is not surprising as the co-operative movement is not recognised in public policy debate as distinct and the notion that co-operative consumers are different from professional consumers is, at least, puzzling.

The organisations on the Customer Consultative Committee have a curiosity interest in co-operatives and aggregation but not a meaningful understanding. The tendency of these organisations is to equate consumer protection with changing governments and policies and it is not sufficiently recognised that because co-operatives are consumer owned that they can protect the interests of consumers. Nor is it recognised that co-operatives are established to give individuals the market power of large companies and that co-operatives should be encouraged to ensure consumers have the ability to secure benefits and minimise the risk of restructuring.

Most members of the ORG Customer Consultative Committee have been advocating tougher legislation and regulation. The marginalisation of the co-operative option in the restructured energy market is a reflection of the marginalisation of co-operatives in this public policy debate – including the Customer Consultative Committee. The emphasis is on how to protect consumers from competition – rather than how to facilitate competitive consumer choice and benefit. Minutes of the Customer Consultative Committee are either a sanitised version of a real debate or reflect the reality of a acquiescent committee that raises few issues, is focussed on procedures rather than outcomes and receives and requests reports.

ORG commissioned a report from the Consumer Law Centre and the Consumers' Federation of Victoria on retail competition for small consumers. The report was received in April 1999 and briefly referred to aggregation but did not mention co-operatives. Co-operative Energy Ltd provided a detailed critique of the report – which included listing hundreds of references on small consumers which were not referred to or utilised by the Consumers Law Centre and the Consumers' Federation of Victoria e.g. by the California Energy Commission and

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the National Rural Electric Co-operative Association. ORG declined to place the detailed critique on its web site.

The co-operative sector has been represented on working parties established by the Office of the Regulator-General, Victoria, to develop minimum standards for electricity consumers – the Contestability Reference Group and the Minimum Standards Working Group. Our participation is fluctuating, however, for there is a cosy relationship between the “industry” and “community” representatives. This relationship illustrates the problem of professional imperialism – the professional colonisation of the consumer.

The history of the restructuring of the energy industry in Victoria has been characterised, therefore, by the following debate:

- The merits and demerits of private and public ownership
- Public protection of consumers from the market through government legislation and regulation.
- A public policy debate focussed on legislative and regulative options and the marginalisation of co-operatives and aggregation.

Co-operative Sector

A few co-operatives in Victoria are involved in the energy industry:

Co-operative Energy Ltd
Co-operative Purchasing Services Ltd
New Market Co-operative Ltd
Southern Energy Co-operative Ltd

Energy co-operatives are structured to meet consumer needs because they are owned by the people who use them, controlled by the people who use them and benefit the people who use them.

Energy co-operatives are a form of consumer co-operatives. Consumer co-operatives provide an alternative history and tradition of fighting for the rights and interests of consumers. Others include consumer advocacy groups such as the Consumers Association of Australia and the Consumer Law Centre of Victoria.

It is consumer co-operatives, however, that are best positioned to further the interests of consumers. The aim of energy co-operatives is to transfer a part of the economic responsibility and power to the consumer – advancing the interests of consumers by placing in their hands the buying and selling of energy.

Co-operatives enable small consumers to be represented and participate in the energy debate, create options and opportunities and correct the imbalance in resourcing and bargaining power. The energy co-operative model we have

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adopted is similar to that being developed in the USA – a federation of existing and new energy co-operatives and membership organisations.

Once united in a co-operative, consumers can solve many of their problems.

Co-operative Experience

In Victoria the co-operative option for the electricity industry has been promoted by the Co-operative Federation of Victoria Ltd and Co-operative Energy Ltd. Co-operative Energy Ltd is a member of the Co-operative Federation of Victoria Ltd and an international member of the USA National Rural Electric Co-operative Association.

Since 1995 Co-operative Energy Ltd and the Co-operative Federation of Victoria Ltd have consistently argued in submissions and publications that choice and benefit for small consumers depends on aggregation through co-operatives. Through repetition of this message we believe that the Office of the Regulator-General (ORG), the Department of Treasury and Finance and community peak bodies now recognise aggregation as an issue to be acknowledged but not necessarily dealt with in a substantial way.

Since 1994 Co-operative Energy Ltd has been involved in the following initiatives:

Co-op Energy Purchasing Group
North-East Project
Union Energy Project
North West Project
Energy Aggregation Project

The Co-opEnergy Purchasing group involved working with a group of non-profit aged care agencies who became contestable from 1 July 1998. Twenty eight agencies throughout Victoria joined the Purchasing Group with 21 having contestable sites. Eighteen of the 21 agreed to sign a contract with a supplier who offered the best price and a three year contract. The supplier was Eastern Energy – now renamed TXU. The average savings achieved was 32% - comparing favourably with a reported average savings of 26% for 410 large manufacturing companies. The lowest savings was 5% and the highest was 57%.

The North East Project was commissioned by a group of local governments in rural North East Victoria – the City of Wodonga, the City of Wangaratta, Indigo Shire, Towong Shire and Delattite Shire. A regional credit union, WAW Credit Union, has also been involved. The credit union has 18,000 members. The councils have agreed to support the co-operative – not by membership but

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through committing their energy loads to the co-operative. The development of the energy co-operative will now be under the sponsorship of the credit union.

The Union Energy Project was initiated with the Maritime Workers Credit Union – an industry-based credit union established by the Maritime Workers Union of Australia. The project has stalled for two reasons. The Maritime Workers Union is affiliated to the Australian Council of Trade Unions which has developed a business relationship with a ‘friendly’ investor owned group. Second, industry superannuation funds are proposing to develop a ‘people’ bank in partnership with an investor-owned group and this could result in the dissolution of the Maritime Workers Credit Union.

The North West Energy Project is also rural-based and the least developed. Co-operative Energy Ltd has been working with Gateway BEET Ltd to establish an energy co-operative.

The Energy Aggregation Project is a joint initiative of the Co-operative Federation of Victoria Ltd and Co-operative Energy Ltd. In late July and August 2000 Co-operative Energy Ltd and the Co-operative Federation of Victoria Ltd brought to Australia energy co-operative consultant Robert L. Church. Church’s visit was only possible because of the financial support of ACCORD and TXU Retail.

Meetings were organised with the staff of the Energy Ombudsman of Victoria (EIOV) and staff from the Office of the Regulator-General, Victoria. Church was also a keynote speaker at a aggregation workshop convened at Moreland City Council. The workshop was co-sponsored by the Co-operative Federation of Victoria Ltd, Co-operative Energy Ltd and the Victorian Local Governance Association (VLGA). The VLGA membership is open to individuals, community organisations and local government. At present, 38 local governments are members – of 78 local governments throughout Victoria. A visit for Church was also organised for North East of Victoria to meet with participants in the North East Energy Project. Following the energy aggregation workshop, members of the Co-operative Federation of Victoria Ltd have been invited to attend a follow-up meeting on 18 December 2000.

These various initiatives, therefore, have had a fluctuating history. Energy co-operative development in Victoria is both promising and fragile.

Conclusion

The co-operative option is not a new insight. It is a revisitation of an old insight – remembering and acknowledging the contribution of co-operatives to the empowerment of individuals and their communities.

With the restructuring of the energy industry, there is an opportunity for existing and new co-operatives to operate in the energy market – creating benefits and

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choices for small consumers. The alternative to consumers organising their energy purchasing needs through co-operatives is to capitulate to the market and the largesse of Government – and consequently the risk of market and government failure.

Co-operative Energy Ltd

Co-operative Energy Ltd is incorporated under Victoria's Co-operatives Act 1996:

Registration Date: 20 December 1994

Registration Number: G2994N

Tax File No: 758 063 869

Australian Business Number: 90 780 949 487

GST Registration Number: 90 780 949 487

The co-operative has been involved in the following working groups of the Office of the Regulator-General, Victoria:

- Contestability Reference Group (Electricity)
- Minimum Standards Working Group (Electricity)
- Minimum Retail Standards Working Group (Gas)

The co-operative has made the following submissions to ORG's distribution pricing and minimum retail standards reviews:

- **Capital Consultation**, Submission to Distribution Pricing Review Consultation Paper No 4, 4 June 1999
- **Competition Standards**, March 2000
- **Contestability Benefits & Costly Risks**, Submission to Distribution Pricing Review Consultation Paper No 2, 10 February 1999
- **Co-op Power is Community Power, Prepared for North East Victoria Energy Purchasing Group**, 1999-2000
- **Small Consumer Empowerment** (Revised) 2000
- **The Energy Trade Off**, February 2000
- **The Form of Price Control and Consultation**, Submission to Distribution Pricing Review Consultation Paper No 3, 22 January 1999
- **2001 Electricity Distribution Price Review Framework and Approach**, Submission to Distribution Pricing Review, 13 July 1998
- **2001 Electricity Distribution Price Review Framework and Approach**, Submission to Distribution Pricing Review, 27 July 1998

The co-operative has also published the following reports:

- **Consumer Aggregation**, Prepared for Gateway BEET Inc, 1999 – 2000
- **Co-op Power is Community Power**, Prepared for North East Victoria Energy Purchasing Group, 1999 – 2000
- **Consumer Aggregation**, Prepared for Gateway BEET Inc, 1999-2000

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- **Group Buying Power Bibliography**, February 2000
- **Group Buying Power: Energy co-operatives empowering small consumers**, July 2000
- **New Government New Direction New Energy: Empowering individuals and their communities through co-operation – mutuality instead of dependence and subservience**, July 2000
- **Regional Energy Options**, North East Victoria Energy Purchasing Group, 2000
- **Small Consumer Empowerment**, 1999
- **Union Energy: Empowering Small Consumers**, Union Energy Project, 2000

The co-operative is a member of:

- Co-operative Federation of Victoria Ltd
- Co-operative Purchasing Services Ltd
- National Rural Electric Cooperative Association (USA)
- Victorian Local Governance Association

The co-operative is involved in the following advocacy, education and aggregation projects:

- The North West Project
- The North East Project
- The Co-opEnergy Purchasing Group Project
- The Union Energy Project